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Sent:

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To: Director - FASB

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To whom it may concern,

On March 31st, the U.S. regulatory body, the Financial Accounting Standards Board (FASB), issued an "Exposure Draft" making the same proposal. FASB hopes to finalize its new standard this fall, effective for corporate fiscal years beginning after December 15, 2004.

These proposals, if adopted, would force companies to scale back broad-based employee stock option plans.

In the U.S., controversy over the issue, and FASB's handling of it, has led to the introduction of two important legislative proposals: the "Broad-Based Stock Option Plan Transparency Act of 2003" (H.R. 1372 and S. 979), and the "Stock Option Accounting Reform Act" (H.R. 3574 and S. 1890).

My Position-

- * Broad-based stock option plans drive innovation.
- o Broad-based stock option plans align the interests of employees with those of other shareholders because such plans reinforce employees' focus on the success of the company.
- o Over the past 5 years Sun has granted 87% of its option shares to rank and file employees below the VP level.
- o Hundreds of Sun employees have sent emails affirming that ownership in Sun through stock options strongly motivates them to take risks, work harder, look for ways to save money, and, above all, innovate. As owners, they know that their extra efforts will be rewarded when the Company is successful.
 - * Innovation is necessary for economic recovery and national security.
- o Innovation by the technology sector will help drive economic recovery by improving productivity and creating jobs.
- o Innovation is vital to national security. Government relies increasingly on private-sector R&D, which, in turn, is driven by motivated employees.
 - * Mandatory expensing is not a solution.
- o Regulators are motivated to develop solutions to address three very real needs:
- More understandable, useful and accurate information for investors;
 - 2. An end to executive compensation abuses; and
 - 3. Better corporate governance.
- o Mandatory expensing of stock options does not satisfy any of these needs.
- 1. Mandatory expensing does not provide investors information that is either more useful or more accurate.
- + The regulatory proposal for mandatory expensing
 based upon the Black-Scholes formula is inappropriate for two reasons:

 1. Black-Scholes was developed to value short-term tradable stock options. Employee stock options are neither

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Letter of Comment No: 29/0 File Reference: 1102-100 short-term, nor tradable. They vest generally over a 5 year period, and their ultimate value is both contingent and speculative.

2. The Black-Scholes formula includes a number of subjective components that would allow for manipulation, resulting in financial information that is neither consistent nor useful for investors to evaluate potential investments.

+ The gross distortion resulting from a Black-Scholes-based calculation is illustrated by the following:

1. In July, 2000, Sun granted stock options with a strike price (then-current market value) of \$45.09.

2. A Black-Scholes calculation would have assigned a per share value of \$28.05 to the options (the amount that the market price is expected to increase over the strike price).

3. Sun stock would have had to reach a market price of \$73.14 for the predictive value of the calculation to be accurate.

4. Today Sun stock is below \$6.

5. The regulatory proposal based on Black-Scholes would have required Sun to deduct \$28.05 per option share issued from earnings over a 5 year period, even as the stock lost 90% of its value due to market forces.

+ The dilutive effect of stock options on current investors, which is the only real impact of stock option grants, is already accounted for in the diluted earning per share calculation. This calculation is readily available and relied upon by all investors.

+ More transparency in financial reporting language and content is a better alternative to providing clear and accurate financial information.

- 2. Mandatory expensing will not end excessive executive compensation, because a corporation will always find ways to reward its top executives.
- 3. Mandatory expensing will not improve corporate governance, because it doesn't address corporate governance issues.

* Mandatory expensing would cost America its competitive advantage

- o A recent study conducted by the Employment Policy Foundation shows that by 2030 we will be facing a critical shortage in the U.S. workforce of 35 million workers.
- o 61% of all new jobs created in the next 10 years will be managerial, professional and technical jobs, with most requiring four-year college degrees.
- o Without enterprise-wide options programs, what incentives will workers both from the United States and around the world have for choosing American firms over more lucrative offers from foreign competitors?
 - o The answer is none.
 - * Mandatory expensing would have significant costs to society.
- o Mandatory expensing would have a disproportionate effect on companies with broad-based stock option plans, reversing the trend of greater employee ownership that has led to innovation, risk-taking and entrepreneurship.
 - o These companies have been the driving force behind our economy.
- o Mandatory expensing would both slow economic recovery and impede development of new technologies, including those necessary to promote national security.
 - * This issue is more than "just accounting".
- o In its response to Congress, FASB stated that it is not its job to take into account any effects of its actions on the economy.
- o Congress has the responsibility to assess and avert the consequences of mandatory expensing.
- o The negative effects on the economy resulting from mandatory expensing must be justified by compelling reasons.
- o The regulatory proposals do not provide any compelling justifications, and they do not provide real solutions to the issues cited by the proponents of expensing.